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Economic Conditions
Governmental Finance
United States Securities

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A Month of Suspense.

THE past month has been one of grave and unusual concern in the political and business world, owing to the sudden development of the crisis with Germany. Diplomatic relations were severed under circumstances which seemed to make war inevitable, and although nearly a month has passed without an act of direct hostility upon either side, the situation is no less critical than when the German Ambassador received his passports. The issue between the two governments is directly joined, and no longer under discussion. Germany has asserted its intention of sinking all ships, belligerent or neutral, in certain waters of the high seas, without search, without warning, without provision for the safety of passengers or crew. Although a nominal blockade has been declared, the conditions prescribed do not accord with the recognized rules of international law, but are, in fact, arbitrary commands, without international sanction, and protested against by all neutral nations. Incidentally, they are in direct contravention of the treaty of the United States with Prussia, 1799, re-adopted in 1825, and referred to by the German authorities in recent correspondence as still in force.

Questions Involved.

Under the circumstances, it is evident that the questions presented to the United States government are much broader than the extent of immediate injury to American trade. Acquiescence would mean not only a surrender of the rights of American citizens, but a definite abandonment of neutral rights of far-reaching consequence. Moreover, for a neutral power to change its public policy in time of war at the behest of one belligerent to the injury of another belligerent is practically to take sides between them.

The country has been very calm under the strain. It has no wish for war, and nothing could be more completely false than the idea that the government at Washington has been under pressure by interests which hope to make money out of war. The people of this country do not want war, and they cherish a long-established friendship for the German people, but there can be no question that they will support their government with practical unanimity in defense of what the President has declared to be "our elemental rights as a neutral nation."

In the Event of War.

There is no reason to anticipate that a declaration of war by this country would have any immediate effect upon the business situation, other than that resulting from additional stimulus. The government has already entered the market for equipment and supplies, and is committed to great expenditures upon the army and navy, but doubtless its orders would be increased and expedited. The experience of other countries, and our own as well, shows that war makes enormous demands upon the industries, hence there would be no reason to apprehend a sudden reaction from the present activity. The danger would be from the other side, i. e., from an over-stimulus in certain directions at the expense of normal development. The industries of this country are already working to capacity, and it is difficult to see how they could do more. Under such conditions government orders would crowd private business to the rear, create new demands for labor and materials, and probably raise costs to a higher level. Enlistments would necessary aggravate the scarcity of labor, and the amount of business in sight would be likely to stimulate further construction work for the enlargement of industries. These are the inevitable economic derangements caused by war, and in some degree we have already been experiencing their effects. War is not recommended by anyone who understands its economic effects as a means of increasing the wealth of a country, but if war must come it is certain that the United States is more fortunately situated to withstand it, and has greater resources with which to prosecute it than any of the countries which have sustained such marvelous exertions for now two and one-half years.

General Business Conditions.

After the first shock of surprise the situation quickly steadied, and aside from a more conservative feeling in financial circles as to future commitments, due to the probability that government financing would have to be done, business went on about as before. Export shipments have been interfered with by the submarine menace, but in the disorganized state of domestic traffic that has been a minor factor. The submarines will undoubtedly do a great deal of damage, but it is not believed they can greatly curtail our export trade, particularly if our own government takes steps for its protection. The announcement of the new British embargo, imposed for the purpose of curtailing purchases abroad and thus reducing the unfavorable trade balance, was received with interest. The propriety of the action, under the circumstances, is not questioned, and our trade is so great at this time that the prohibitions will have small effect upon it, particularly as in the more important lines the action is intended simply to bring transactions within the purview of the government, under licenses.

The Railways.

The congested state of the railways has overshadowed international affairs in business circles generally. The situation, which had been bad before, was made desperately so by storms and cold weather, which impeded switching operations at the terminals. Instead of a car shortage the situation has been that of a general blockade. The roads have been embarrassed by the scarcity of labor, and particularly of machinists, who for two years now have been in great demand for the manufacture of machine tools and work in automobile and munition factories. The heavy traffic of the last year has told on equipment, but the machine shops are short-handed, and it is a serious matter to keep the locomotives in commission. During the last ten days, with milder weather, traffic conditions have improved in an encouraging degree. Deliveries of new equipment will be coming along in important lots this year, but it has been demonstrated that the railroad situation needs treatment on a large scale looking to the future.

The Steel Industry.

The steel industry has been adversely affected by the railway congestion, which prevented the movement of raw materials to the works and of products away from them. At one time during the month nearly as many blast furnaces were banked as were operating freely. The pressure to place orders is practically as great as at any time, the demand for ship plates being one of the prominent features. Foreign business, in ship plates, railway and structural steel, and shell steel is offered constantly. The tendency of prices has been again upwards, and whatever uncertainty there was two months ago about full activity for the industry throughout 1917 seems to have disappeared.

The high prices ruling for all building materials are evidence in themselves that building operations are on an undiminished scale. Although there is more or less talk in all quarters of plans held up on account of the high prices the most tangible fact is that with the production of building materials greater than ever before, there is no accumulation of supplies. The lumber industry would be doing very well but for its transportation troubles.

The metal, mining and refining industries are still stimulated to the utmost, and constantly increasing the output. Silver, since January 1, has reached new high figures, not touched since 1893, and closed last month at about 78 cents. Copper is quoted at 36 or 37 cents spot, and forward deliveries lower. Producers are sold up into the last half of the year. Lead is higher than at any time since the war began, due in part to the difficulty in getting supplies from the mining districts.

The Textile Industry.

The textile industries are as busy as at any time, but there has been some unsettlement in the cotton goods market as a result of the fluctuations in raw cotton. Distribution, however, is on an unprecedented scale. The market for woolen goods has been excited over the prospect that the United States would get into the war and enter the market to buy uniforms. A British authority has estimated that one-third of the world's wool supply was going into uniforms, which would mean that less than 1 per cent. of the population was taking 33 per cent. of the wool. The United States has always been largely dependent upon the Australian wool crop, and in the year 1915-16 the British government permitted large exports to the United States under an understanding with the Textile Alliance governing exports of cloth from this country. It has not been claimed that understanding was not observed, but this year exports of Australian wool to the United States has been limited to 50,000 bales, as against an actual movement of 564,000 bales last year. This situation is giving great concern to American manufacturers, and they still hope that further amounts will be released. Prices have advanced sharply since January 1st. Western wool, to be sheared in May, is said to have sold as high as 40 cents per pound. All woolen goods are necessarily higher.

The boot and shoe industry is between seasons, and the situation as to leather and hides is uncertain. The British embargo includes shoes and leather, but these are necessities which will doubtless be admitted as needed.

Trade and Clearings.

Trade generally is very large for the season of the year—in truth, as large as it can be with the railroad facilities what they are. The products of the interior—grain, live stock, oil, wool, cotton, etc., are bringing unusual prices and although these prices signify that living costs bear heavily upon many residents of the cities, they put great purchasing power into the hands of the producers. Bank clearings, which now compare with the large figures of a year ago, are showing reduced gains in the east, but large gains in the west and south. Railway earnings for December, the latest month available, although showing a good gain in gross over the same month of 1915, showed an actual loss of net, a state of affairs that railway managers have been looking forward to with apprehension. The first effect of the revival of business was to give them large gains in both gross and net, but as they used up their old stock of supplies and have been forced to replenish at higher prices, the net gains have been diminishing until now, with earning at the maximum and expenses still rising, the outlook is by no means agreeable. It is stated that the average advance in railway equipment and supplies over 1915 is 118 per cent., and the wage question is not yet settled.

Financial Situation.

Financial circles are quietly awaiting developments at Washington. The banking situation is strong in every respect, and no disturbance of confidence is expected in any event. The New York Clearing House banks hold $167,000,000 in excess of their legal reserves, as compared with $135,000,000 a year ago, and the banks throughout the country are in exceptionally strong position, not only as regards their cash reserves, but as regards the character of their loans. The prosperity of the last two years has put the business of the country on a very solid basis. The banking system of the country is abundantly able to take care of the needs of the business community in any situation that develops, and to perform any part that may devolve upon it in connection with the government's financing.

Whether the country becomes a party to the war or not, it will have to borrow money to meet the great expenditures that have been undertaken. As yet the Secretary of the Treasury has no authority to borrow except by the sale of the Panama Canal bonds or one-year certificates, which pay three per cent. interest and cannot be sold at less than par. If the country is not actually at war, and the amount required is not above $200,000,000, or possibly $300,000,000, it may be that this provision will suffice, but if there is practical certainty of more extensive borrowing, a three per cent. rate will be too low to attract the amount of capital required.

If this country becomes a belligerent there will be naturally a change in the situation as regards loans to the allied powers. Financial aid to them would count practically for the same results as aid to this government, and be much more speedily effective. It is likely that all of the allied governments would rather have immediate reinforcements in the form of credit and supplies, which would help them in the campaign they are planning for this spring and summer than any more distant aid that could be offered. A policy that would shut off their borrowing and purchasing here now would weaken them at a critical time.

For the month of January, 1917, the exports of this country were $613,441,000, and the imports $241,675,000, giving a trade balance of $371,766,000, largely against the allied countries. Since January 1st a British loan of $250,000,000 has been placed here, and $151,000,000 of gold has been brought in on British account. These figures gives some idea of the problem which confronts Great Britain in settling for her own and her allies' purchases in this country, and indicates where she has the greatest need of help.

Importance of the Crops.

At the moment no other factor in the national situation is of greater importance than intelligent, precautionary preparations to secure the largest possible acreage of land under cultivation, and particularly in the food crops, during the coming season. Whether we are to have war or peace, the population must be fed, and if, unfortunately, weather conditions should be unfavorable, and the yield no better than last year's, the food situation next winter will be so much worse than it is now that we may well take alarm while there is yet time to provide against the possibility. The present crop year began with a large carry-over of all the grains, but it will end without reserves, and the whole world will be dependent upon the crops of 1917. The beginning is not good. The Argentine wheat crop, now harvested, is so nearly a failure that there will be little for export, and the corn crop will be not much better. The Australian wheat crop, which, like that of Argentine, is harvested in the months of our winter, is estimated at 139,392,000 bushels, against 187,120,000 last year, but fortunately there is a carry-over estimated at 80,000,000 bushels. A semi-official report puts the condition of French winter wheat at 65 per cent., against 74 last year, and states that owing to lack of fertilizer and want of proper preparation of the soil, the yield will be below normal. The crop of Holland is unpromising, and of England backward. In the United States there has been a shortage of moisture in the principal winter wheat states.

The plant is not known to be injured, and there is yet time for sufficient moisture to come, but if it was under a snow covering the outcome would be better assured. A freeze has cut off the early vegetable crop in the Southern states, which would have soon relieved the present scarcity.

Unusual Conditions.

There are unusual features in the situation which deserve attention. The high wages paid in the town industries have been drawing labor from the farms. The men come to the towns for winter work, and last spring they did not go back to the country, and they are not likely to go back this spring, particularly if industry receives a new stimulus from our entrance into the war. The farmer's outlay for seed and all expenses is higher, and while high prices for products are usually expected to stimulate larger production, they may not do so this year.

In ordinary times we can draw on other countries to make up for domestic shortage. We have frequently imported potatoes from Europe, and the effects of not being able to do so now are apparent. It is just as important under present conditions to have reserves of food as reserves of cartridges. When so much is dependent upon a good crop, it is the part of prudence for the entire community to concern itself about the situation from the beginning of the season. There are certain common vegetables which make up a large part of the food supply, such as potatoes, beans, onions, etc., which do well in all parts of the country, and can be grown in a small way without machinery, whose production this year in ample quantities should be assured beyond chance or doubt. This garden production can be greatly increased if a popular interest is awakened and systematic efforts are made to place idle town lots and nearby tracts at the disposal of people who are willing to work them.

Organization Required.

The grain crops can also be increased materially if all the business interests are aroused to an appreciation of the fact that the country confronts an emergency. The time to deal with next winter's food riots, next winter's proposals for an embargo and other wild legislation, and next winter's demands for higher wages, is now. It is a popular idea of late to have a "survey" made of any situation of public concern, and it would be well if one were made this spring of crop prospects in every agricultural county of the country. The question of facilitating production comes down at last to the situation of each farmer; does he need anything required for his work—seed, a horse, an implement, temporary assistance, or even advice—which a community-organization might provide? There is much work, well enough at another time, which may be subordinated this year to the production of a big crop. The South should continue and extend the policy of growing more food stuffs. If chambers of commerce, bankers' associations, and other local organizations of business men will take the situation in hand in a formative way they can do more to safeguard the prosperity of the country than can be done at this time by any other effort. With reserves exhausted, and the world situation what it is, there is no danger of overdoing production, for the largest possible crop in this country is certain to bring remunerative prices. It must be remembered that if the war ends at any time before the crop of 1918 is harvested there will be a great demand from central Europe on the crop of 1917.

The New Taxation.

The Senate Committee upon Finance has accepted the House proposal for a special tax of 8 per cent. upon the net income in excess of 8 per cent. of all corporations whose net annual income exceeds $5,000, but has amended the measure to make it expire by limitation in four years.

A great many protests against the principle of this taxation have been made by organizations of business men, and but for the critical situation in which the country stands there would be many more. Men are reluctant to raise objections at a time when they recognize the need of more revenues for the national defense, and when objections subject them to unfair criticism. They are more than willing to support the government in all policies necessary to uphold national interests and the national honor, and they do not like to appear as obstructionists, or as counting the cost to themselves, but they cannot fail to see that new and far-reaching policies which they do not approve are being developed in this taxation.

In this country wealth has always borne the bulk of the taxation. Much the larger part of our taxes are for local purposes, and they are levied directly upon property holdings. The taxation of the Federal government has always been levied largely upon luxuries. It is right that property should pay for the protection which it receives, and the taxation of luxuries is an eminently sound policy. It may be readily agreed that these two sources should supply the great body of the revenue, but it is an essential principle of the democratic form of government that every person who participates in the government, enjoys its protection and helps to shape public policies, should accept some share of the burdens which the government entails. We are getting so far away from this principle that taxation, instead of being regarded as a burden, is looked upon by an increasing number of people as a means of despoiling the minority in possession of incomes which are large enough to come under popular condemnation. It has become a leveling agency, valued for what it accomplishes in this respect independently of the revenues it produces.

The Source of Profits.

The general theory upon which the excess profits tax is approved by this class of people is that the persons who make their capital earn more than eight per cent. do it by somehow putting the screws on the public, and that the tax penalizes and discourages them.

If these premises were correct there would be small reason to complain of the reasoning, but the truth is that the men who are most successful in business win their success by conferring benefits upon the public, and that instead of being penalized and discouraged they should be rewarded and encouraged. In every efficiency plan, where the object is to increase production, a certain standard is fixed upon and every achievement above that is rewarded. In the efforts that are being made in many states to raise the average of corn production it is customary to give a reward of some kind to every competitor who raises 100 bushels to the acre, and graded prizes to those who exceed that amount. The reason for this is perfectly apparent in the communities where such contests are carried on. It is a gain to the whole country to have the production of corn increased. The methods which the successful competitors introduce will be seen and adopted by others and eventually the average production of the whole country will be increased.

The same is true in all lines of business. The fact that one man makes a higher return on his capital than others in the same field is usually due to the fact that he manages his business more efficiently. The leaders in every line are the money-makers, and they are usually serving the public better and at lower cost than their less enterprising rivals. They introduce the new methods; they cheapen production. Gradually the methods which they develop become general, and the average cost is reduced, but they are always ahead and below the average. The state could afford to pay rewards for their leadership, but instead of that the new policy is to put a special tax upon every one who can show his head above the deadline, and to make the tax rapidly progressive.

Educational Test for Immigrants.

The next immigration act, which raises the head tax from $4 to $8, imposes a literacy test and adds various minor amendments to the existing law, has been passed finally over the presidential veto, and will become effective May 1st. The measure, in practically its present form, has been pending for years, and vetoed several times. It prevails at last through the combined influence of the sentimental people who think our citizenship is being too rapidly diluted and the very practical people who think the supply of labor is being too rapidly increased. It remains to be seen how serious a bar the literacy test will prove to be. This country has been developed largely by immigrant labor. Its common labor now is largely of the immigrant class, and unless there is a sufficient supply of such labor to enable our industries to expand there will be fewer opportunities for all our people. There cannot be employment for more clerks, mechanics, craftsmen, tradesmen or professional men unless there are also more laborers. There cannot be an expansion of railway service without more track hands and laborers as well as trainmen and office employes. In this country we are doing our best to educate the rising generation to occupations more remunerative than manual labor, but there is manual labor which must be done. It has been coming to us from foreign lands to the advantage of the immigrants, and to our advantage as well. If the new test is effective in curtailing our labor supply, it will retard the industrial development of the country. Of all times, the present would seem to be most inopportune for placing restrictions upon the supply of labor. Our supply of capital is increasing rapidly, but it cannot be used without an increasing supply of labor, and if this is not available here capital will go where it can be obtained. This means that we are contributing by our own legislation to the forces that will promote the exportation of gold when the war is over, and that by the exclusion of labor and the exportation of capital we will aid the development of European industries to compete with our own.

The Meat Industry.

The quotations in the January number of this publication from the recent annual report of the Cudahy Packing Company have brought us several letters of comment, which show that some readers have confused the percentage of profit upon sales with the percentage of profits upon capital employed. The figures given for profits were about one-quarter of one cent per pound on an average for all dressed beef sales during the year, and 2.2 per cent. upon the sales of all product.

The business of the great meat-packing companies is of more than ordinary interest to the public because they handle an important article of food and are often accused of exercising monopolistic control over the prices of live stock and meats. Their annual reports to stockholders show the earnings and the details of the business quite fully, and are verified by well-known firms of public accountants. It is characteristic of the business that the percentage of net earnings upon gross business is small, but the aggregate profits of the leading companies are large, because the volume of business is enormous. The percentage upon sales shows the relation of the packer's profit to the price of live stock and of meats, which is the most interesting feature of the subject. The percentage of annual net earnings to

capital is larger, of course, because the capital is turned over several times during the year. Moreover, all of the packers are large borrowers, and because of the quick-moving, staple, character of their product are able to borrow at low rates, and the profits upon the borrowed capital are included in the earnings shown upon their own capital.

The year 1916 was an unusually good one in the packing business, as it was in most lines of business. The movement of cattle and hogs was large, so that establishments were run close to capacity, foreign sales were exceptionally heavy, and inventories were made on a higher basis of values at the end of the year than at the beginning. The larger companies have been broadening their field in recent years to include other food products and various inedible products, and extending their operations to other countries. Their entire business at home and abroad is included in the reports.

Profits of Leading Packers.

The total sales of the largest business, that of Swift & Co., during the fiscal year, amounted to $575,000,000, upon which a profit of $20,465,000 was realized. The profits were about 3½ per cent. on the turnover, the largest in many years. Calculated upon the company's own capital, including the surplus fund, about $120,000,000, they amounted to 16⅔ per cent. The amount of borrowed capital employed at the close of the year was about $70,000,000.

The profits upon the beef business are reported separately as follows:

Live weight of cattle slaughtered	1,764,144,000 lbs.
Dressed weight of cattle slaughtered	953,446,000 lbs.
Net profit realized	$2,342,702.29
Average net profit per cwt. live weight	$ .1328
Average net profit per cwt. dressed weight	$ .2457

We have examined the books of Swift & Company and we certify that the above statement of profits of the Beef Business in the United States for the fiscal year ending September 30, 1916, has been ascertained from the Company's books, and correctly represents the profit earned from the sale of Beef Hides, Tongues, Tripe, Casings, Oil, Tallow, Fertilizer, Bones, Offal, and all other by-products of the cattle before charging interest on borrowed money, but after charging depreciation at the rate of 1.9% per annum on the cost of Buildings and 6-1/12% per annum on the cost of Machinery and Equipment.

Arthur Young & Co.,
Certified Public Accountants.

Chicago, Illinois, November 28, 1916.

The profits upon dressed beef are about the same as shown by the Cudahy Company, but the percentage upon the entire business is higher, and averaged about one-half cent per pound upon all products handled.

Armour & Company are next to Swift & Company in volume of business, with sales of $525,000,000. Their capital and surplus aggregate about $137,000,000. The profits of the year's business were $20,100,000, or 14.7 per cent. on the company's own capital employed, besides which it was employing at the close of the year about $78,000,000 represented by bonds and bills payable. The President's report contained the following statements as to features of the year's business:

Our business has been in increased volume, the gross business done during the year under review having been $25,000,000, which, based on the net profits shows a return of 3.8 per cent. on our turnover.

The margin of profit in the handling of edible meat products caused us, as you will remember, a few years ago to center our aims of expansion to the development of our subsidiary and allied companies and departments, some of which handle the by-products of the packing houses, but in many of which the percentage of our by-product to the total raw product consumed by the subsidiary was small. This year has amply demonstrated the soundness of our policy in this regard, although due consideration must be given to the unusual conditions prevailing throughout the world. The greater increase in percentage of profit has been in these companies handling inedible products.

The results this year have not only been possible, but consistently augmented, because we have throughout the year experienced continually increasing values. You will remember that at the beginning of the year inventory values were low, and each month has seen slight increases over the preceding month. In this we have had a directly opposite result from that of the year 1911, which was the most unprofitable in our history. We are now in a very high plane of values, and it will require great discretion and cautionary procedure in the conduct of our business to avoid a recurrence of the conditions of 1911 and the attainment of a normal plane of values without severe loss.

During the year just closed we were able to show for the first time throughout the full year the results of the operations of our new packing house recently completed in La Plata, in the Argentine Republic.

These reports show the big packing companies at record earnings. The officers in each case take occasion to advise the stockholders that such profits cannot be expected permanently, but even last year they were but a small factor in consumers' prices. It is safe to say that instead of representing a tax upon either the producers of live stock or the consumers of meats, these profits are more than met by the economies of present methods as compared with the old methods in vogue when the meat for every locality was provided by its own slaughtering establishments, and the latter were a common nuisance in the outskirts of every town.

The leading packers make as by-products scores of commercial articles, such as fertilizers, glue, soaps and other toilet articles, violin and drum strings, curled hair, brushes, pepsin and a line of pharmaceutical products, from materials which formerly went to waste.

February Bond Market.

The German announcement of "unrestricted submarine warfare" on February 1st resulted in a severe contraction in bond dealings. During the first week of the month a list of twenty-five active rails and industrials suffered losses rang-

ing from one to three points. Of the foreign government issues, Anglo-French 5s, American Foreign Securities 5s and English and Canadian issues were active at slightly lower prices. During this period stocks declined in the most violent manner since the week ending December 23d. The second week of the month brought continued fractional declines in active rails and industrials and heavy sales of foreign governments, particularly in the new British 5½s. Trading was active in U. S. Government issues as the result of discussion regarding a new government loan. The third week brought advances in rails and industrials with an active inquiry for British, Canadian and American Foreign Securities. Anglo-French 5s were particularly strong, advancing from 90 to 92 on sales for the week of $2,078,000. The closing week of the month experienced a stronger market for rails and industrials, with average advances of 1%, while foreign government issues sold well.

Municipal Issues.

There have been few offerings of new municipal issues during the month, the most important being $4,000,000 State of Massachusetts 4s, which were sold at prices yielding 3.50% to 3.75%, according to maturity. The successful bidder reported the bonds sold in two days. The City of Detroit sold $1,000,000 Thirty-Year 4s on a 3.92% basis. Prices declined somewhat during the month with cities such as Cleveland, Youngstown, Buffalo, Syracuse and Utica offered on a 3.90% to 4% basis. New York City bonds were weak in the opening days of the month, declining from a 3.97% to a 4.15% basis, but closing the month on about a 4.10% basis. The total sales of State Bonds on the New York Exchange from January 1st to February 23 were reported at $56,173,500, as compared with $32,048,500 for the similar period in 1916.

Corporation Issues.

There was practically no new financing of importance until the closing week of the month, when a New York syndicate offered $50,000,000 Bethlehem Steel Company 5% secured notes due February 15, 1919, at 98½ and interest, about a 5¾% basis. Another New York syndicate offered $25,000,000 Southern Railway 5% secured Gold Notes maturing March 2, 1919, at 99 and interest yielding about 5½%.

Other offerings include $10,000,000 Edison Electric Illuminating Company of Boston Five-Year Gold Notes on a 4.50% basis; $2,000,000 Cleveland Electric Illuminating First Mortgage 5% Bonds at 103; $2,155,000 North American Light & Power Company First Lien 6% Bonds at 100; $5,000,000 Public Service Corporation of Northern Illinois 6% Serial Debentures at 100; $5,500,000 Haytian-American Corporation 7% Cumulative Stock at 100; $4,804,000 Texas Electric Railway First and Refunding 5% Bonds at 94½.

Foreign Governments.

The most important financial event in the foreign government market was the spontaneous subscription of $5,000,000,000 to a new British "Victory War Loan" which is said to be the world's largest financial operation. The only new offering of prominence in the home market was $4,000,000 Province of Ontario 4% Gold Bonds due March 1, 1926 at 92¼ and interest, yielding about 5.10%. On February 2nd the Minister of Finance asked the Canadian Parliament for authority to float $100,000,000 to finance maturing obligations, public works and general purposes. It, however, is now reported that the Minister will shortly announce the third Canadian loan for war purposes. The particulars are not announced but it is anticipated that the loan will be somewhere between $100,000,000 and $150,000,000 in the form of a twenty-year 5% bond on about a 5⅛% basis, payable in Canada and New York. A new French loan has also been under discussion. The Argentine Government paid in cash the $18,500,000 Discount Notes maturing February 21st and it is said that the funds were raised internally. An issue of $8,098,000 Province of Buenos Ayres, Argentine, Ten-Year 6% Gold Bonds, formerly placed in London in sterling through the London County and Westminster Bank, has been refunded into dollar bonds and transferred to this market.

Railroad Financing.

New York, New Haven & Hartford stock has been making new low records as the result of discussion regarding the payment on May 1st of $25,000,000 New Haven 4½% Notes and $20,000,000 New England Navigation 6% Notes. Bankers closely associated with the property are said to have assured the management that the notes will be paid or refunded. The Interborough Rapid Transit Company will ask permission of the Public Service Commission on March 8th to issue $16,436,000 5% bonds under its First and Refunding Mortgage in connection with third-tracking and other work on the Manhattan elevated system. The first of the Chicago Traction bills was introduced in the Illinois Legislature on February 6th to permit the consolidation of the surface and elevated lines, which will embrace financing of about $500,000,000, half for construction and half for refunding existing securities. The Chicago & Northwestern Railway has announced an offering of $15,251,000 Common Stock at par to holders of common and preferred of record March 1st to the extent of 10% of their holdings, payment on or before April 7th. It is reported that New York and Philadelphia bankers are organizing a holding company to amalgamate the electric power properties of the Lehigh Coal & Navigation Company and the Lehigh Valley Transit Company of Eastern Pennsylvania, which will require a capitalization in the neighborhood of $40,000,000.

Average Prices.

The average prices for forty listed bonds as compiled by the *Wall Street Journal* is 94.28 February 24th, compared with 96.06 January 24, 1917, and 94.72 February 24th, 1916. The volume of bond business for the New York Stock Exchange for the four weeks ending February 23d was $80,884,000, compared with $83,088,500 for the similar period in 1916.

Federal Reserve System.

The Federal Reserve Board has obtained more nearly what it wants, in the way of amendments to the law, from the Senate Committee than from the House Committee. The former has approved of the proposal to allow the reserve banks to issue reserve notes directly in exchange for gold, instead of by the circuitous method now pursued, and also of the proposal that the official percentages of gold against outstanding notes and of lawful money against deposits shall be calculated upon the consolidated assets and liabilities, including gold in the hands of the reserve agents. This will show the true condition of the banks and increase their lending powers. At present gold in the hands of the reserve agents is treated as no longer owned by the banks, but as paid irrevocably into a redemption fund, where it simply offsets an equal amount of notes in circulation. The percentage of reserve to outstanding notes now represents the relation between gold in the hands of the banks and the amount of outstanding notes after deducting from the latter the amount of gold held by the agents.

If the Senate passes the bill reported by its committee, and the House passes the bill reported by its committee, the issue will be determined in conference.

The Senate Committee has proposed a different change in the reserve requirements. After providing that the actual net reserves of the three classes of member banks in the reserve banks shall be not less than 6, 10 and 13 per cent. of their own demand deposits, and three per cent. of their time deposits, it provides that:

> "Every member bank shall maintain in its own vaults an amount of specie or currency equal to at least four per centum of its demand deposits less the amount of those reserves with the Federal reserve bank which are in excess of the minimum reserves required by this section."

Bank Credit and The War Loans.

The borrowings of the belligerent governments are upon such an enormous scale that even the financiers who have best understood the resources of these countries are astonished at the facility with which the successive loans are placed. Naturally there is great interest in the bank statements, as these give the most definite information to be had, touching the question whether the loans are taken up by the public out of current income or handled, either directly or indirectly, by an increasing use of bank credit.

The total of all British Treasury loans from the outbreak of the war to the close of 1916 was approximately $14,000,000,000, and something more than one-half of this sum was placed in 1916. Loans made in the United States up to that date aggregated about $850,000,000, and securities sold here have been estimated at $2,000,000,000. A loan was placed in Canada, and there have been scattered sales of bonds and Treasury bills in other countries, but on the other hand there have been important sales of Russian and French Treasury bills in London, and some capital has been raised in England for industrial purposes. Apparently as much as $11,000,000,000 of new capital, or capital and credit, has been provided in England, over and above the proceeds of borrowings and security sales outside, in about two and one-half years, or nearly $4,500,000,000 per year. Besides this there has been new taxation, which for the fiscal year ending March 31, 1917, is expected to yield $1,500,000,000. These sums are far beyond any estimates ever made of the net savings of the British people.

The German Imperial Government to the close of 1916, had issued five loans, to which subscriptions aggregated $11,187,100,000. This sum was practically all raised in Germany, and since the early months of the war there has been little opportunity for the German people to realize on outside investments in any way that would be helpful in this respect. How has it been done?

The natural inference is that credit has played a large part in the process in all countries and no doubt this is true, but so far as information is available concerning banking conditions in Great Britain and Germany, bank credit does not appear to be as large a factor in the totals as might be expected. It is very interesting to trace the effect of an expansion of loans upon deposits and note circulation, but the data is rather scanty on this side of the ocean, as foreign banks, other than the banks of issue, are not required to publish statements, and when they do the figures are not in all respects comparable.

Creating Bank Credit.

Sir Edward Holden, head of the London City and Midland Bank, at the recent annual meeting of that bank, discussed in an interesting manner the creation of credit, and gave some figures for the leading English banks. He said that from June, 1914, to June, 1916, the loans of 19 leading banks, excluding the Bank of England, showed an increase of $600,000,000, after deducting an amount equal to their own aggregate capital and surplus, and that deposits showed an increase of an equal amount, after deducting their cash reserves. This clearly indicates the relationship between loans and deposits, which must be

constantly borne in mind in considering present conditions. He also said that in the same period the Bank of England created new credit in the sum of $345,000,000, so that the 19 principal banks together with the Bank of England had created new credit in amounts aggregating $945,-000,000. The 19 leading banks have about three-fourths of the business done by all banks other than the Bank of England.

In his statement of loans Sir Edward Holden evidently did not include investments, which in the 19 banks have increased by approximately $1,000,000,000. He may be right in not including this increase as representing new credit, but Mr. Goodenough, chairman of Barclay & Company, another one of the leading banks, addressing his stockholders at their recent annual meeting, touched upon the effect of having the banks subscribe for the loans on their own account in the following language:

Many people ask why the banks do not subscribe all that is required to carry on the war. The reasons against their doing so should be clearly understood. They have already been briefly alluded to in several of the leading papers, but I think the point should be emphasized. It is not good that the banks should subscribe, except for temporary purposes, or in the way of lending to private individuals who do subscribe, because when banks subscribe there is a duplication of credit which in course of time is injurious to the community at large, causing a rise in prices all round and a demand for increased currency, both of which are adverse to the stability of the foreign exchanges

If an individual subscribes to the War Loan, he reduces his credit with the bank and transfers it to the Government, and the Government in turn pays over the amount to those to whom they are indebted, and through them the original item of credit returns to the banks. There is no duplication of credit, but merely a change of hands. On the other hand, if the banks subscribe, a fresh item of credit is created in favor of those to whom the Government is indebted, without a corresponding reduction of credit on the part of any of the bank's customers.

This would seem to bring bank subscriptions to government loans into the same class with bank loans to customers who borrow for the purpose of subscribing. In the latter case new credit is plainly created; in the case of bank subscriptions it would depend upon the manner in which payment to the Treasury was made. If payment was made by a transfer of cash from the vaults of the subscribing bank, no credit would be created; and the same would be true if payment was made by drawing upon an existing credit at the Bank of England. The latter instance would be analogous to the case of an individual subscriber who draws on his deposit account. But if the subscribing bank made payment by creating new credit upon its own books, upon which the Treasury made drafts, or if it created new credit at the Bank of England by borrowing or re-discounting, as many of the banks did at the outbreak of the war, evidently the sum total of current credit would be increased in the same manner as where an individual borrows of his banker. Of course it would be only by this creation of new credit that the banks could subscribe for the loans in toto, the proposition to which Mr. Goodenough was addressing himself. Moreover, where the banks paid for their investments by borrowing at the Bank of England, the new credit would be created by that institution and appear in its increased loans.

The Circle of Payments.

It is interesting to follow the process by which the Treasury's borrowings of credit are gathered in, then distributed and eventually find their way back in the form of customers' deposits to the banks from which they are originally drawn. The subscriptions to a loan are payable in instalments, and the subscribers draw upon the banks in which they have deposit accounts, transferring credit to the Treasury. These credits are gathered into the Bank of England, and from there disbursed by cheque in payment for war materials and supplies. The recipients deposit the cheques in their own bank accounts and draw in payment of their own bills, with the result that in due course a complete redistribution is effected.

This is very simple, and the casual observer may think there is no reason why the operation cannot be repeated indefinitely; and so indeed it may be if all the subscribers to the loan are paying their subscriptions out of income. In this event each loan gets out of the way of its successors, leaving them a clear field. But if the subscribers borrow of their bankers for means of payment, and these borrowings are permanent, the re-distribution when completed will show a general increase of deposits corresponding to the increase of loans. The only way the deposits which have been created by loans can be finally disposed of is by having cheques drawn against them in payment of loans. Such a payment brings down both sides of the balance sheet.

It does not follow because these deposits find their way back to the same banks that the situation is just as favorable for another loan as it was before. These public loans, if they are to go on indefinitely, must be taken up out of net private income. The government may give a check for a million dollars to a munitions manufacturer, but the latter cannot subscribe the whole amount to a new loan. If he has a profit of ten per cent., this is the amount which he can subscribe to the next loan, provided he does not require any of the profits for his private living expenses. The rest of the $900,000 he disburses in the conduct of his business, and so much of it as his employes and sub-contractors are able to save they may invest in the loan. And so out of each loan only a portion can be caught up and made available for succeeding loans; the rest must come from savings elsewhere, or be supplied by means of new credit through the banks.

More Reserves Required.

It is obvious that these new deposits, created by loans, do not increase the ability of the banks to

make more loans. They are a liability, not an asset, and as they bring no new reserve money they impose upon the banks the necessity of finding more reserve money, unless reserve percentages are to diminish. In the case of the English banks a credit at the Bank of England is included with cash reserves, but, as such credits increase, the Bank of England must find gold reserve for them, or suffer its percentage to be lowered. However, since a reserve of 20 or 25 per cent. is considered quite sufficient for the Bank of England at this time, and deposits there serve as a similar reserve for the banks with which the public commonly does business, it will be seen that the banking organization enables gold in the central reserve fund to have great sustaining power when measured against the volume of bank credit.

Moreover, the Treasury furnishes another form of credit which is good in the reserves of all banks except the Bank of England, i.e., the exchequer notes, against which there is a reserve of about 20 per cent. at the Bank of England. How much gold there is in England which could be turned into the central reserve fund we do not know, but doubtless there is a very considerable amount. Sir Edward Holden stated that his bank held $35,000,000 in gold at the close of the year. The Bank of England by the last statement before the war showed a reserve of coin and bullion of $183,357,000, which was 40.3 per cent. of its demand liabilities, while the first statement of 1917 showed $276,155,550 of gold, which was 18½ per cent. of its demand liabilities.

Besides requiring increasing reserves, the inflation of bank credit has an undesirable effect upon prices, as indicated by Mr. Goodenough in the quotation above, so that the business of the country, including the prosecution of the war, must be conducted upon a rising scale of costs. The bank deposits are a form of currency, and when they increase faster than the volume of business their value depreciates as in the case of other forms of currency.

How the Loans Have Been Raised.

After allowing for the increase of investments and loans of all kinds in the 19 principal English banks and the Bank of England, and for the sales of securities and borrowings abroad, there remains the sum of about $9,000,000,000 which the people of the British Isles had subscribed and paid to the war loans, up to the beginning of 1917. It has been estimated that in normal times $2,500,000,000 was employed in the British market in handling commercial bills, foreign and domestic. This business is very much diminished in war times. All that portion of British industry which is employed upon war work is financed by the war loans and the enormous cash payments by the government together with higher profits, have created a general situation of financial ease. The reports of bank officials at their annual meetings commonly refer to the scarcity of commercial bills and to the employment of funds in Treasury bills. Therefore, besides the increase of bank loans, there has been a diversion of funds from commercial bills to Treasury bills, amounting to possibly $1,000,000,000 to $1,500,000,000.

These various deductions from the total of war loans bring the amount to be provided out of current income down to $7,500,000,000 or $8,000,000,000.

The general situation is inflated. Prices are high, the government's borrowing is necessarily greater in consequence, and, on the other hand, the income and profits of the people are correspondingly increased. Although 5,000,000 men have been withdrawn from industry for the army and navy, this reduction in the working force has been overcome by the more effective organization of industry, the employment of women, and the stimulated exertions of the people. The case of the London City and Midland Bank, as stated by Sir Edward Holden, probably illustrates the entire situation. Three thousand men of the bank's staff are with the colors, 2,600 women have been employed, and the business goes on. Before the war the savings of the British people were estimated at $2,000,000,000 to $2,500,000,000 annually, and it is not improbable that with complete employment, high wages, the principal industries driven to full capacity, unusual profits, and an urgent motive for saving, they may have risen to $3,000,000,000 or $3,500,000,000 per year.

The New Loan.

Since the above was written the results of the new British war loan have been announced by the Chancellor of the Exchequer, and they are more remarkable than any previous achievement in finance. The subscriptions aggregate $5,000,000,000, not including any conversions excepting $600,000,000 of short treasury bills. It is stated, furthermore, that the banks have not subscribed on their own account, although they gave the public liberal encouragement to borrow for that purpose. It is evident that no such total could have been reached otherwise, and the *London Times* has described the arrangement under which these accommodations were granted as follows:

The basis of the "facilities" agreed upon between all the important banks is that, on the security of the new Loan stock and with no other collateral required, they will lend at 1 per cent. below bank-rate varying, with a minimum charge of 5 per cent. interest, up to a margin of 5 per cent. on the issue price. This practically means that, towards the £95 required for subscribing for £100

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS FEBRUARY 23, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's Settlement fund. Cr. Balances	12,740	138,403	24.070	15.010	5.373	5.736	31.523	9,553	11.410	7,562	6.948	13.027	281,355
Gold Settlement Fund	17,825	53,768	10,855	26,510	16,826	5,197	32,694	2,302	4,457	27,358	7,660	8,409	213,861
Gold Redemption Fund...	50	250	100	66	448	478	200	19	125	149	22	15	1,922
Total gold reserves..	30,615	192,421	35,025	41,586	22,647	11,411	64,417	11,874	15,992	35,069	14,630	21,451	497,138
Legal tender notes, Silver certf's and Sub. coin....	226	7.831	233	202	121	1,231	927	2.822	711	81	819	45	15,249
Total Reserves......	30.841	200,252	35.258	41,788	22,768	12,642	65,344	14.696	16,703	35,150	15,449	21,496	512,387
5% redemption fund—F. R. bank notes..............										300	100		400
Bills discounted, Members Commercial paper........	2.969	2,066	1,304	1,963	3,710	2,219	1.198	556	2.467	509	1.141	164	20.266
Bill bought in open market	12.749	33.381	14 130	10,484	6,681	3,444	10,689	8.446	6.940	4.950	2,517	9,552	123,966
Total bills on hand..	15,718	35 450	15,434	12,447	10.391	5.663	11,887	9.002	9 407	5.459	3,658	9.716	144,232(c)
Investment U. S Bonds ..		71		4,985	442	50	5,961	2,203	1,409	8,518	3.403	2,429	29,471
One-year U. S. Treas. notes	1,666	726	1,999	1.820	1,969	1,491	2,962	891	1,230	963	1,430	1,500	18,647
Municipal Warrants.......	611	5,534	1 431	2.962	15	124	2,842	1,127	515	492	506	965	17,124
Total Earning Assets	17,995	41,781	18,864	22,214	12,817	7,328	23,652	13,223	12,561	15.432	8,997	14,610	209,474
Federal Reserve Notes, net	839	14,958		859			2,738				236	2,446	22,076
Due fr. other F. R. Bks. net	1,409		1,995	159	1.069		10,307			55		1.431	732(b)
Uncollected items.........	15,257	29,590	17,133	11,731	7,969	8,977	14,524	9,562	4,063	8,540	4,560	5,034	136.940
All other resources........	68	313	280	266	102	2,225	668	2,201	108	187	1.510	343	8,271
TOTAL RESOURCES.....	66,409	286,894	73,530	77,017	44.725	31,172	117,233	39.682	33,435	59,664	30.852	45,360	890,280
LIABILITIES													
Capital Paid in............	5,083	11,888	5,259	6,087	3,412	2,419	6,950	2,800	2,407	3,074	2,695	3,915	55.989
Government Deposits.....	340	3,836	1,191	1.079	1,516	1,859	937	334	632	146	832	1,374	13,407
Reserve Deposits, net.....	49,783	233,368	46.458	58,202	26.048	19.972	96.465	27,372	26.679	46,116	25 005	37.007	692.475
Federal Reserve Notes-net	11,109	23,712	17,398	11,649	7,709	3,235	12,881	6,699	2,178	7,147	2,130	2,979	108,826(a)
Federal Reserve Bank Notes in circulation.....			3,086		6,040	2,935		2,827	992	3,181			19,061
Due to other F. R. Banks net.....................		13,885				753		318	547		190		
All other Liabilities.......	94	205	138									85	522
TOTAL LIABILITIES.....	66.409	286.894	73,530	77.017	44,725	31.172	117.233	39.682	33 435	59.664	30.852	45.360	890,280

(a) Total Reserve notes in circulation 303,171.
(b) After deduction of net amount due to other Federal Reserve Banks, 732, the Gold Reserve against Net deposit and note Liabilities is 71.4% and the cash reserve is 73.6%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 74.6%.
(c) Bills and acceptances; municipal warrants: 1—15 days 38,154; 16—30 days 34,073; 31—60 days 50,528; 61—90 days 24,432; over 90 days 14,169. Total 161.356.

of the new Five Per Cent. Loan, the approved customer can borrow £90 from the bank and need only provide £5 himself. As against his annual dividend of £5 he will make himself liable—at 5 per cent. interest—to paying £4 10s. to the bank for the advance. He will probably find that the advance is made on the stipulation that it requires to be renewed from time to time, starting from three months after May 30, when the last instalment on the Loan falls due, and that, formally, the terms as to interest may then be altered. But if he talks the matter over with his banker he will also probably find that renewal for a reasonable time will, in fact, present no difficulty, and that there is very little chance of bank-rate (now 5½ per cent.) rising over 6 per cent., or of the banks charging a sound customer more than the 5 per cent. interest now payable.

The German Loans.

The total of Imperial German loans to January 1, 1917, as shown above, was a little above $11,000,000,000. We have no recent figures for the condition of the German banks other than the Reichsbank, which corresponds in its functions to the Bank of England. From July 23, 1914, to January 1, 1917, its loans and discounts, including Treasury bills, increased from about $200,000,000 to about $2,124,000,000, or by approximately $1,924,000,000. In the same period its gold reserve increased from $323,000,000 to $625,000,000.

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